

SENATE BILL REPORT

SB 6630

As of January 31, 2008

Title: An act relating to extending the tax incentives provided for qualified research and development to persons performing both phase I and II clinical trials.

Brief Description: Extending the tax incentives provided for qualified research and development to persons performing both phase I and II clinical trials.

Sponsors: Senators Kastama, Rasmussen, Kilmer, Regala and Kohl-Welles.

Brief History:

Committee Activity: Ways & Means: 1/29/08.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dianne Criswell (786-7433)

Background: In 1994 the Legislature enacted tax incentives to encourage additional research and development (R&D) in five high-technology sectors: advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology. Businesses engaging in these activities may take a credit against the business and occupation (B&O) tax and an exemption from sales and use taxes on construction of R&D and pilot scale manufacturing facilities.

B&O Tax: Washington's major business tax is the B&O tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business.

Sales and Use Tax: Sales tax is imposed on the retail sales of most items of tangible personal property and some services. The use tax is imposed on the privilege of using tangible personal property or services in instances where the sales tax does not apply. Sales and use taxes are levied by the state, counties, and cities, and total rates vary from 7 to 8.9 percent.

High Technology Research and Development B&O Tax Credit: The B&O tax allows a credit for certain operational research and development (R&D) expenditures in high-technology businesses. The credit is provided to firms (including qualifying nonprofit organizations) that make R&D expenditures in excess of 0.92 percent of taxable income. For the purposes of calculating the high technology B&O tax credit for R&D spending, the average tax rate is defined to be based on a business' total annual taxable amount, including both taxable income and the value of the products manufactured. Beginning in calendar year 2007, a person claiming the high technology R&D credit may calculate the credit based on the firm's average

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tax rate or a specified percentage, whichever is higher. The specified percentage is 0.75 percent in calendar year 2007; 1 percent in 2008; and 1.25 percent in 2009, and 1.5 percent in 2010 and thereafter.

Sales/Use Tax Exemption: Firms that create a new operation or expand or diversify a current operation in qualified high technology R&D or pilot scale manufacturing are eligible for a sales and use tax exemption on the project. The exemption includes sales and use tax on building construction and purchases of equipment. If the investment project is used for a purpose other than qualified R&D or pilot scale manufacturing within the first eight years of operation, a proportionate share of exempted taxes must be paid. Firms must apply for the exemption before starting construction or equipment purchases.

Reporting Requirement: Participants in both tax incentives are required to supply the Department of Revenue with information necessary to measure the effects of the programs in reports to the Legislature in 2009 and 2013. Participating firms must file a survey by March 31 each year following a year in which the incentive is claimed, providing information on the benefits from the incentives, the R&D activities, and the firm's employment.

Clinical Trials: A clinical trial is a comparison test of a medication or medical treatments. Such trials are necessary for Federal Drug Administration (FDA) or other governmental regulatory approval. Clinical trials involving new drugs are commonly classified into four phases. If the drug successfully passes through Phases I, II, and III, it is generally approved by the regulatory authority for use in the general population. Phase IV are generally conducted after government approval.

Summary of Bill: Persons specializing in Phase I and II clinical trials are eligible for the high technology R&D credit and deferral programs. R&D credits for Phase I and II clinical trials are not allowed for amounts received from a person eligible for the R&D credits for the same amounts.

Appropriation: None.

Fiscal Note: Requested on January 21, 2008.

Committee/Commission/Task Force Created: No.

Effective Date: Section 1 takes effect for expenditures incurred on or after January 1, 2008. Section 2 takes effect ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This bill clarifys that businesses leading investigational trails qualify for the high technology R&D credit. This is the "hope and promise" piece of R&D – a chance to find out if innovation will have application. Northwest Kinetics, in Tacoma, Washington, has grown to be the fourth largest business conducting Phase I and II clinical trials. We have always assumed our activities were "research and development," because we investigate effects of medications on humans. We are very involved in R&D and optimization of drug treatments, and have worked on drugs in every category of disease. Most of our partners are out-of-state. We contract with drug companies, but are not owned by a drug company. Our subjects self-select, and are healthy volunteers who stay in our facility for the duration of the study to monitor their status. We have grown from a 35-person company, six years ago, to our present 260 employees. We provide many jobs in

the Tacoma area, as well as the millions of dollars of stipends we pay our subjects annually. We are the only company doing Phase I clinical trials in Washington.

Persons Testifying: PRO: Bill Stauffacher, Northwest Kinetics; Jane Taylor, Northwest Kinetics; Bruce Morris, Northwest Kinetics.